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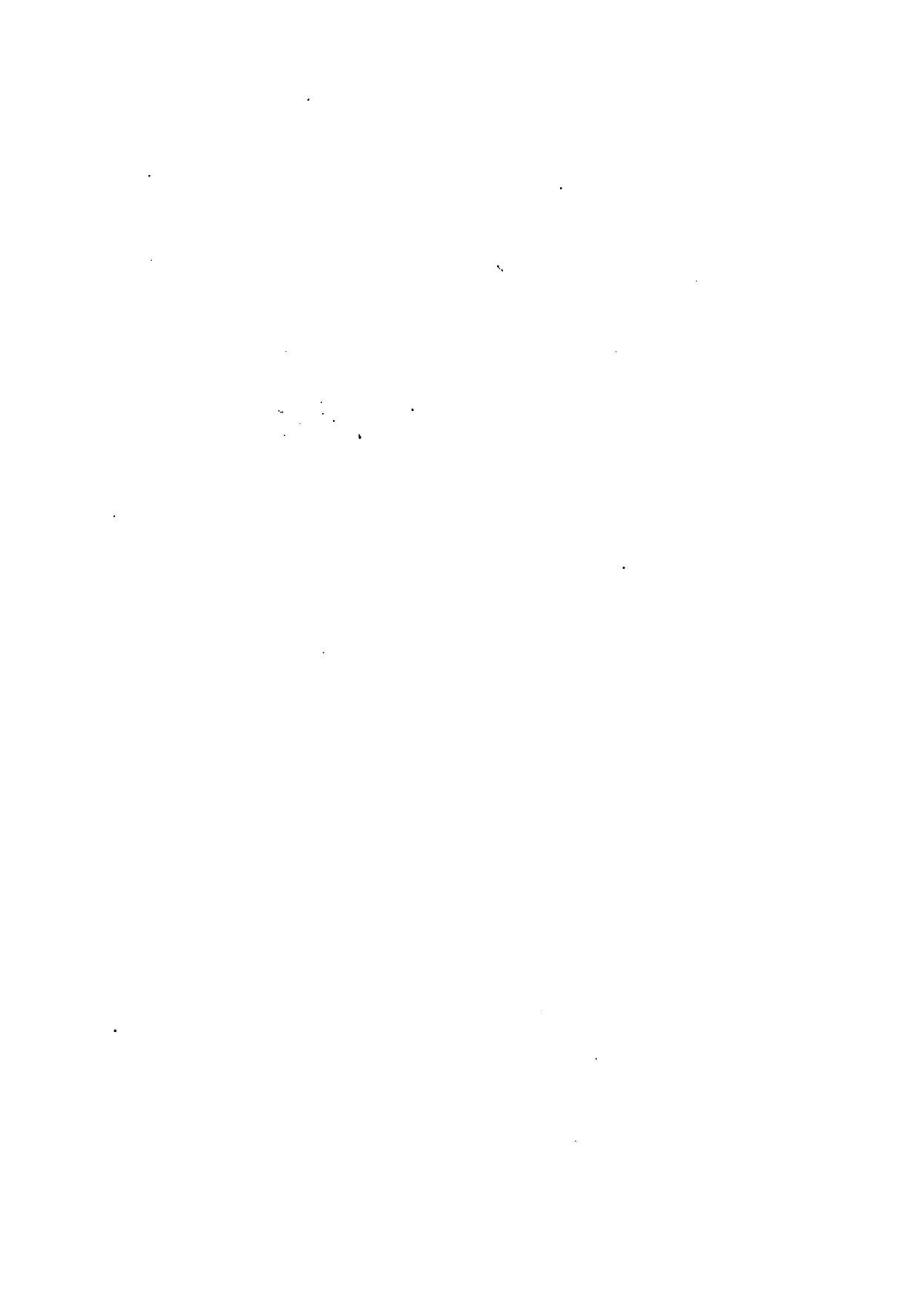
Principles that Should Control the
Interference of the States
in Industries

BY

HENRY CARTER ADAMS, PH. D.

OF THE UNIVERSITY OF MICHIGAN AND CORNELL UNIVERSITY.





With Regards of Adels

Principles that Should Control the
Interference of the States
in Industries

A PAPER READ BEFORE
THE CONSTITUTION CLUB
OF THE CITY OF NEW YORK

BY

HENRY CARTER ADAMS, PH. D.

OF THE UNIVERSITY OF MICHIGAN AND CORNELL UNIVERSITY.

*"It is better to stir a question without
settling it, than to settle a question
without stirring it."—Joubert.*

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Prof. J. W. Garrison

GENTLEMEN, MEMBERS OF THE CONSTITUTION CLUB:—
I am confined this evening, by the terms of your invitation, to a consideration of the principles that should control the relations existing between the state and industrial action. Not that I complain of the narrowness of the subject you have selected for me, for it is as broad as the problem that now lies athwart the path of social progress ; but I mention the limitation prescribed for the address as a partial apology for not elaborating every criticism upon the doctrine of *laissez-faire* that may be suggested. For myself, I regard it as a pleasure to meet a body of scholarly men who recognize the lamentable results of the attempted realization of the rule of non-interference, and who profess to see that the continued sway of this idea is fraught with danger to all that is best in Christian society. Since, then, we start with the belief in common that the theory of individualism is no longer applicable to modern relations, we may proceed at once to the positive inquiry respecting the principles that should shape the application of the theory of state control.

Still we cannot wholly elude reference to the claims of *laissez-faire*. It is against the assumptions of this doctrine that the theory of State control is urged, and for this reason it is natural to expect that its analysis will suggest some rules for directing the action of government. That system of thought known as *laissez-faire* has been termed vague, elusive, and indefinite ; but such expressions are quite incorrect. Indeed, its great influence over the minds of men is largely due to the compactness with which it may be presented, and to the logical form of which its statement is

capable. "When those who have been called the *laissez faire* school have attempted any definite limitation of the province of government," says Mr. Mill, "they have usually restricted it to the protection of person and property against force and fraud." From this it appears that, in speaking of the claims of *laissez-faire*, we are dealing with a rule laid down for the control of all matters of government, and have to do with "permanent and universal principles of human nature," only so far as we undertake to explain the basis upon which it is conceived to rest.

But this rule which places the government outside all positive direction in industrial affairs may be held in either of two ways. It may be accepted as a premise of universal application to which all legislation must conform, or it may be regarded merely as a maxim, though a maxim with presumption always in its favor. It is not necessary to dwell long on the first of these interpretations, for there are few who maintain the doctrine of non-interference in this extreme form. Thus Mr. Mill follows the statement of his definition with the remark that it presents a rule to which strict adherence is impossible, for "it excludes some of the most indispensable and unanimously recognized of the duties of government." Professor Cairnes, also, after a critical analysis of the claim, concludes that the doctrine of *laissez faire* establishes no rule of scientific pretensions, though it is one to which governments should in the main conform. The two propositions from which it is the logical sequence are that human interests are fundamentally the same, and that when a man advances his own interests he must, in so doing, advance the interests of society. If these propositions are proven, there is no escape from the practical conclusion that society must realize the best of possible results from the free play of individual action; but if, on the other hand, either of these propositions are found to be in error, we must abandon at least the universality of this rule.

as a premise of public legislation. It may, perhaps, be admitted that fundamentally, and in the long run of two or three generations, the interests of all members of society are the same. Society is organic and not mechanical, and each part suffers with the refusal or inability of any other part to perform its ordinary functions. There is a truth in that much-abused fable from the old Greek writer of "The Belly and the Members," though to adequately portray modern life it should be rewritten. The *dramatis personae* in the modern quarrel should be the big toe frozen in a snow-drift uttering its complaints against the little finger, wearing a diamond ring and a long fingernail.

The important error, however, lies in the second proposition. It is not true that when a man advances his own interests, or what he believes to be his own interests, that he necessarily advances the interests of society. This may be the case, and again it may not. The logical error in this course of reasoning lies in the fact that the word interest does not mean the same thing when employed in the major as in the minor premise. It is the fundamental interest that is spoken of in the former, and this is frequently the ultimate or remote interest of the individual. In order, therefore, to hold to the conclusion of *laissez-faire* it becomes necessary to show that when a man works for his immediate gain in a society that measures success by the rate of profit, he will follow a line of action fully in harmony with the ultimate and fundamental needs of society; and this is a difficult thing to show. Or again, there is such a thing as the speculative interest, which is a very important source of individual action; but the idea of speculation is foreign to the simplest conception of a society. Certain conclusions also, that follow necessarily from this line of reasoning, are sadly out of harmony with observed facts. As for example, that success measures desert, or that the accumulation of capital is a sure test of the possession of

character ; a conclusion of most practical importance, perhaps, to mothers with marriageable daughters.

But can the rule imposed by the doctrine of *laissez-faire* be accepted as a general rule for the guidance of legislation ? Is there always a presumption in favor of its application, and must each departure from its demands be regarded as an exception allowed for some special reason ? As we have stated, this is the manner in which the advocates of the doctrine most frequently present its claims. "*Laissez-faire*," says Mr. Mill, "should be the general practice : every departure from it, unless required by some great good, is a certain evil." Professor Jevons defends the factory acts not on the basis of any general principle, or as part of a scheme of social organization, but because the observed evils that arise in their absence are too great to be endured. If this be the correct position to assume, there is no need of further search after principles for the control of governmental action, for the doctrine of *laissez-faire* furnishes all the direction that is needed. But it is interesting to notice that this claim of the English economists does not stand uncontested. If we turn our attention to utterances that proceed from Germany, we shall discover an altogether different rule for separating the duties of the state from those of the individual ; or perhaps it would be more accurate to say that we shall find the English rule restated with a reversal of its terms. Thus there are certain German writers who claim that, in every dispute between the state and the individual respecting the performance of any function, the presumption always lies with the state. It is conceived by them to be an essential function of the state to control industries, and individual action is called upon in each case to prove its right to recognition. How shall we decide when doctors thus disagree ?

As the matter presents itself to my own mind, neither of the positions here stated can be regarded as satisfactory in

itself, or as resting upon adequate views of the nature of society. There is no overpowering presumption in either direction, and to admit of one is to cover up the point at issue. There is a sense in which the state stands opposed to the individual, but we cannot expect to discover the guiding principle for public control so long as our analysis proceeds upon such an hypothesis. The fundamental error of English political philosophy lies in regarding the state as a necessary evil; the fundamental error of German political philosophy lies in its conception of the state as a complete organism within itself. Neither the one nor the other of these views is correct. Society is the organic entity about which all our reasoning should center, and both state action and the industrial activity of individuals are but functions of the complete social organism. The state is not made out of the chips and blocks left over after framing industrial society, nor does industrial society serve its full purpose in furnishing a means of existence for the poor unfortunates who are thrust out of the civil or the military service. Society, as a living and growing organism, is the ultimate thing disclosed by an analysis of human relations; and because this is true it is not right to speak of a presumption in favor of individual initiative or of state control, as though these stood like contestants opposed to each other. It is not proper to consider individual activity as supplementary to state powers, or to look upon the functions of the state as supplementary to personal activity. It is futile to expect sound principles for the guidance of intricate legislation so long as we over-estimate either public or private duties; the true principle must recognize society as a unity subject only to the laws of its own development.

Another bit of tangled wood must be passed before we come to a clear field for positive discussion. Much of the confusion that now surrounds the question of the proper industrial duties of the state is due to a failure to distinguish

between *laissez-faire* as a dogma and free competition as a principle. The former, as we have seen, is a rule or maxim intended for the guidance of public administration; the latter is a convenient expression for bringing to mind certain conditions of industrial society. Thus when one speaks of the benefits of free competition, he means the benefits conferred by industrial freedom. And when one argues for free competition he is called upon to show that the best possible results may be expected for society as a whole and for each member of it, when labor is free and independent, when the right to acquire and enjoy property is guaranteed, when contracts are defended, and when every man is obliged to stand on his own legs, enjoying to the full the fruits of his own labor and suffering to the full the barren harvest of idleness. It seems that there should be no reasonable doubt respecting the benefits that must flow from such an organization of society, and I for one have no quarrel with those who urge its realization as a worthy object of endeavor. But I do take serious issue (and this is the important point to be observed) with those who hold that the rule of *laissez-faire* indicates the way by means of which such a state of affairs may be established and maintained. The claim that laborers should be free and independent is readily admitted, but at the same time it is denied that the language of public law, which makes all men equal before it, is a guarantee of freedom and independence; the right to acquire property is heartily endorsed, but it is also urged that property should not be acquired in such a manner or to such a degree as to defeat the purpose for which the right was granted; the necessity of maintaining contracts is conceded, but it must not be forgotten that the liberty of contract is a mere corollary of personal liberty. It cannot then be said that they who deny the sufficiency of the dogma of *laissez-faire* fail to appreciate the advantages of competitive action. This is not, as is so frequently assumed, the ques-

tion that lies in controversy. There is general agreement respecting the end to be attained, but there is disagreement with regard to the means of attaining it. The common mistake of prevalent opinion respecting the relation of the state to industrial life is, not that it recognizes competition as a beneficent principle, but that it expects to realize the benefits of the principle through the uncontrolled play of private interests carried on in harmony with existing ideas of property rights.

This presentation of the problem discloses for us the first principle which should guide the control of the state over industrial affairs. It should be the purpose of all laws touching matters of business to maintain the beneficent results of competitive action while guarding society from the evil consequences of unrestrained competition. This may seem a truism, but its statement is necessary as the starting point for constructive study. It is at least sufficiently distinct from either the English or the German rule, as above stated, to warrant the belief that it may serve as the basis of a wholly different system of thought.

But what are the benefits of competitive action? The most important of these is the intensity with which labor is applied when men are guaranteed full enjoyment in the fruit of their labor; a result which cannot be expected where slavery or dependence, either legal or actual, is the lot of the majority of men. A competitive society also provides for ease of movement from one grade to another, or from one business to another, and thus ensures elasticity in thought and expansion of purpose as the result of the manner in which motives are applied to individual conduct.

Under such conditions, it is the future and not the past that claims the attention of men. It is hope and ambition, rather than fear and apprehension that moves the energies of men. We should not forget that the material progress of the nineteenth century is in large measure due to the

mobility of action which the idea of equal rights before the law brought into modern society. No proposal, therefore, which looks to the return of the old form of society that existed before the dawn of competitive action in industries, can be regarded as adequate to the solution of the present social problem.

Again, wherever the conditions for competitive action are maintained, society has a guarantee that goods will be produced at the lowest possible cost ; for the hope of personal gain leads to the best disposal of labor and to the invention and adoption of the best machinery. Assuming the same premise, society has also a guarantee that the goods produced will be placed upon the market at fair prices. It is unnecessary to enter upon any explanation of the manner in which this guarantee works, for popular economic philosophy devotes much of its attention to an elaboration of the reasoning here suggested ; and our only quarrel with popular economic philosophy is that it arrests its analysis of industrial relations after discovering the advantages which might accrue to society, could the conditions of competitive action be maintained. It refuses to inquire what is necessary on the part of the state to ensure the maintenance of such conditions, or to proceed in its study to a consideration of the evils that flow from individualism in industrial life. But assuming the dogma of *laissez-faire* to be the most practical method of establishing competitive action, it shuts itself up to a sort of fatalism and witnesses with a stolid countenance the fruitless efforts of men to realize a rational existence.

But what are the evils of unrestrained competition ; or, more accurately stated, what are the pernicious results of the attempted realization of competitive action under the direction of the doctrine of *laissez-faire* ? I cannot hope to present a complete answer to this question, but must rest content with certain suggestions that may lead to

a clear understanding of such rules for government action as will be proposed. The important evils of unrestrained competition are of three sorts.

First. The free play of individual interests tends to force the moral sentiment pervading any trade down to level of / δ that which characterizes the worst man who can maintain himself in it. So far as morals are concerned, it is the character of the worst men and not of the best men that gives color to business society.

Second. The application of the rule of non-interference renders it impossible for society to realize for its members the benefits that arise, in certain lines of business, from organization in the form of a monopoly. The theory of *laissez-faire* sees clearly the beneficent principle in free competition, but fails wholly to recognize a beneficent principle in monopoly.

Third. The policy of restricting public powers within the narrowest possible limits tends to render government weak and inefficient, and a weak government placed in the midst of a society controlled by the commercial spirit will quickly become a corrupt government; this in its turn reacts upon commercial society by encouraging private corporations to adopt bold measures for gaining control of government machinery. Thus the doctrine of *laissez-faire* overreaches itself; for the application of the rule which it lays down will surely destroy that harmony between public and private duties essential to the best results in either domain of action.

Let us consider these in the order in which they have been presented.

THE STATE MAY DETERMINE THE PLANE OF
COMPETITIVE ACTION.

What is meant by saying that unguarded competition tends to lower the moral sense of a business community? This law—for I suppose in the ordinary acceptance of that term the statement here presented may be called a tendential law—is not of equal application to all forms of business. Wherever the personal element of a service comes prominently into view, and the character of the agent rather than the quality of goods is forced into prominence, probity has its market value and honesty may be the best policy. But in the commercial world as at present organized, where the producer and the consumer seldom come into personal contact, the moral arrangements followed in the process of production are not permitted a moment's thought. All that is considered by the purchaser is the quality and the price of the goods. Those that are cheap he will buy, those that are dear he will reject; and in this manner he encourages those methods of production that lead to cheapness. There must be substantial uniformity in the methods of producers who continue in competition with each other, and each man in the business must adopt those rules of management which lead to low prices or he will be compelled to quit the business. And if this cheapness, which is the essential requisite of success, be the result of harsh and inhuman measures, the inevitable result must be that harshness and inhumanity will become the essential condition of success.

The fact upon which we insist at this point is that an isolated man is powerless to stem the tide of prevalent custom, and that in many lines of business those men whose moral sensibilities are the most blunted, exercise an influence in determining prevalent custom altogether out of proportion to their importance as industrial agents. Suppose

that of ten manufacturers nine have a keen appreciation of the evils that flow from protracted labor on the part of women and children ; and, were it in their power, would gladly produce cottons without destroying family life, and without setting in motion those forces that must ultimately result in race deterioration. But the tenth man has no such apprehensions. The claims of family life, the rights of childhood, and the maintenance of social well-being are but words to him. He measures success wholly by the rate of profit and controls his business solely with a view to grand sales. If now the state stand as an unconcerned spectator whose only duty is to put down a riot when a strike occurs, the nine men will be forced to conform to the methods adopted by the one. Their goods come into competition with his goods, and we who purchase do not inquire under what conditions they were manufactured. In this manner it is that men of the lowest character have it in their power to give the moral tone to the entire business community. The proprietor of a printing establishment in Vandewater street remarked to me not long ago that he could point to the employers who were responsible for the harsh regulations and low wages under which the printers of the city of New York worked. "I am powerless," he added, "however much I might desire to manage my business on any other principle than that of getting the most out of the men for the least money." The business of manufacturing ready-made shirts and in a large measure that of ready-made clothing, has fallen into the hands of disreputable men, for none others will follow the methods necessary to produce cheap goods. One of the most common complaints of business men is that they are obliged to conform to rules of conduct which they despise. It is a necessary result of a competitive society that the plane of business morals is lower than the moral character of the great majority of men who compose it.

But what, it may be asked, can the state do in the premises ! The state has done much and can do no more. That

code of enactments known as factory legislation is addressed to just this evil of competitive society, and it only remains for us to formulate for this code an economic defense. The general rule laid down for the guidance of state interference in industries was, that society should be secured in the benefits while secured against the evils of competitive action. When the large body of competitors agree respecting some given method of procedure, but are powerless to follow it because a few men engaged in the same line of business refuse to conform to the proposed regulations, it becomes the province of the state to incorporate the wish of the majority in some practical law. In this manner there is established a legal plane of competition higher than that which would have been maintained in the absence of legal enactment. This is no curtailment of competitive action, but a determination of the manner in which it shall take place. If the law says that no children may be employed in factories, the plane of competition is raised to the grade of adult labor. If married women are refused employment, the nature of competition is again changed, but not restricted. Or in the same manner the law might establish the plane of competition to a normal day's labor for men, as the result of such legislation some of the evils of the present system would disappear, while all the benefits of individual action would yet be conserved to society.

This, then, is one defense of interference on the part of the state. It lies within its proper functions to determine the character of such competitive action as shall take place. There must be conformity of action, and the only question is whether the best or the worst men shall set the fashion. One cannot be neutral with regard to this question. No vote at all is a negative vote ; and a vote in the negative is as positive in its results as one in the affirmative. Should the state insist on following the rule of non-interference, society cannot hope to adjust its productive processes to the best possible form of organization.

THE STATE MAY REALIZE FOR SOCIETY THE BENEFITS
OF MONOPOLY.

Let us now turn to consider the second point introduced by the enumeration of the evils that flow from unrestricted competition. The application of the rule of non-interference, it was said, rendered it impossible for society to realize for its members the benefits that arise, in certain lines of business, from organization in the form of monopoly. It may seem at first strange to speak of a beneficent principle in connection with monopolies, for we are accustomed to associate them with all that is odious, grasping, and tyrannous. The existence of monopolies in favor of individuals has always been regarded as an infringement of personal rights. The exclusive privileges of the past century rested upon royal charter or royal patent; but those of which complaint is now heard, spring from the conditions of modern business activity or from the peculiar nature of certain industries. But it is of no importance in what manner exclusive privileges are maintained, the results are the same in every case. The energies of a growing and expanding society are diverted to the service of a favored class; and this, when it becomes generally apparent, gives rise to an unhealthy discontent which checks further expansion.

It is then easy to understand why the word monopoly should give rise to a feeling of distrust or even of anger. Much of that which we have come to admire in modern life and to rely upon in modern character was developed in the struggle to overthrow exclusive privileges of all sorts. Yet if we look carefully into the matter we shall find that there is much to be said in favor of that unity of control and symmetry in administration only possible when a business is managed as a strict monopoly. A monopoly in industrial life is a business that for any reason is superior to the con-

trol of the competitive principle. In its most simple form it is a business in which one set of agents come under the direction of a single mind. Provided the business be such that it admits of something like military organization; provided the details of its management have been well worked out; provided its extension to meet new demands may be accomplished by merely duplicating what already exists; and provided the social want which it supplies is wide spread and constant, there is much to be said in favor of complete and exclusive management. Under such conditions a service may be rendered at less cost to the public than if the agents of the monopoly were broken up into competing groups. There are several reasons why this is true. The fact of an assured demand for services rendered admits of the closest calculations; the extent of the demand also allows of a minute application of the principle of division of labor; the absence of any rivalry between competing concerns precludes the necessity of expending more capital than is required for an economical performance of the service; and, what is perhaps of as much importance as any other consideration, there is no temptation to adopt speculative methods of management which lead to the covering of unnecessary losses of one period by the arbitrarily high profits of another. Thus the *possibility* of cheapness and efficiency seems to lie in the very nature of a monopoly. This is the beneficent principle of which mention was made, and the practical question is how to realize the benefits of this principle for society.

The relations here set forth will present themselves more clearly to our minds if we throw into comparison the rule of public and the rule of private financiering. A private business is managed to secure a profit, and, other things being equal, the higher the price secured for any service rendered the higher will be the profit. The rule of private financiering, therefore, is to maintain the price of goods or

services at the highest price which has no tendency to curtail profitable business. The price of goods in this case will equal the cost of production plus the profit to the undertaker, and the only guarantee against exorbitant rates lies in the fact that purchasers are free to choose from whom they will buy.

The rule of public financing, on the other hand, conforms to an altogether different principle. It is the purpose of government to render services at the lowest price consistent with efficient service. Price equals cost. This is true because the state, being the manager of the business, has no motive in acquiring riches. The officers of the state receive their salaries which, roughly speaking, may be said to correspond to the profit secured by the managers of private enterprises. The guarantee that price will not be more than cost of production including salaries of officers, lies in the publicity of accounts and in all that goes to make up efficient service. In theory, therefore, we should expect parallel results from a monopoly organization under control of the state and a business privately organized directed by the principle of free competition. For employment of corresponding grades, the salary of an official ought to be equal to the ordinary income of a business manager, and the guarantee of competition ought to work like that of official responsibility; but, unfortunately for the theory, industries vary in the demands which they make upon personal control, and neither guarantee is observed to be unrestrained in its action.

I do not wish to be drawn from the main line of my argument to consider which form of organization is the most applicable to all industries; for this, I apprehend, is not the question at issue. The position here assumed is, that the doctrine of *laissez-faire* does not permit society to realize in any adequate degree the benefits of organization in the form of monopoly. This is true in the first place, be-

cause there are some industries that can be managed in a more economical manner by the State than if parcelled out among competing agents ; but more especially because there are some industries which from their very nature are monopolies, and cannot, therefore, be safely consigned to the rule of private fanciery. Yet in both these cases the prejudice roused by the teachings of *laissez-faire* excludes the government from these spheres of activity. Is it not absurd to say that a business superior to the regulating influence of competitive action should be conducted under the rule that the highest price possible be demanded for services rendered? Yet as long as public opinion holds that the presumption to be always in favor of individual action, large numbers of such monopolies as these may be maintained. It is only when the question is regarded from the point of view offered by the collective interests of society that we may secure a just appreciation of the relation of government to business activity.

The practical conclusion to which this analysis leads is that society should be guaranteed against the oppression of exclusive privileges administered for personal profit, while at the same time it should be secured such advantages as flow from concentrated organization. I do not at present undertake to say whether this should be done through carefully guarded franchises, through official commissions, through competition of the State with private industries, or through direct governmental management ; but in some manner this purpose should be accomplished. Such monopolies as exist should rest on law and be established in the interests of the public ; a well organized society will include no extra-legal monopolies of any sort.

But the difficulty of the rule lies in its application. Is there any principle according to which industries may be classified so that the statesman can easily deter-

mine what lines of business should be brought under the rule of public financiering? The advocates of *laissez-faire* would say that the government should wait until it was observed that society suffers some actual evil before calling into exercise the sovereign power entrusted to it. Even the most liberal of them go no farther than to admit that the presumption in favor of non-interference may be overcome by the pressure of facts. But if the view we have endeavored to present be accepted, this claim is inadequate to realize a harmonious social organization. For in the first place, it deliberately chooses that society suffer an evil until it become unbearable before it admits of state action; and, in the second place, it incurs the risk of allowing monopolies to grow until they become stronger than the state. On the other hand, if there be any virtue in the scientific analysis of industrial relations, we should be able to determine with some degree of accuracy under what conditions the best results may be expected from an application of the rule of private or of public financiering. And I shall endeavor to suggest the line of thought along which such an analysis should proceed.

Engle

All industries, as it appears to me, fall into three classes, according to the relation that exists between the increment of product which results from a given increment of capital or labor. These may be termed industries of constant returns, industries of diminishing returns, and industries of increasing returns. The first two classes of industries are adequately controlled by competitive action; the third class, on the other hand, requires the superior control of state power. Let us consider these a little more in detail.

Industries of the first class are such as demand a proportional increase in capital and labor to secure a given increase in product. That is to say, if $2x$ capital and labor result in $2y$ product, the application of $3x$ capital and labor would gain $3y$ product. The increment of return is equal

to the increment of capital. All those businesses in which success depends largely on attention to detail, and where the personal element of the laborer is brought prominently into view, fall under this class. For example, the retail business of merchants is subject to the rule here stated. It is not necessary for public officials to inquire if sugar is sold as low as fair dealings demand, for this business is one that admits easily of multiplication and consequently invites competition. The step from a clerkship in a grocery to the proprietorship of a new establishment is not a difficult one to take, and for this reason we are assured that the profit of an ordinary grocer will not greatly exceed the salary which he pays his head clerk. There can, therefore, be no motive for applying the rule of public financing to businesses of this sort.

The same conclusion applies to the second class of industries, where a given increment of product calls for a proportionally greater increment of capital and labor. Assuming the same relation to exist in an established business as before, if $2x$ capital is required for $2y$ product, an additional x of capital will not produce an additional y of products, but something less. That is to say, $3x$ capital may produce but $2\frac{3}{4}y$ product. Businesses of this sort are said to be subject to the law of diminishing returns, and it calls for no abstruse argument to recognize that society is quite safe in submitting such lines of industry to the control of competition. The rate of product in the new industry is greater than that in the one that is farther developed, and for this reason we may rely upon individual interest to maintain a large number of separate producers. The agricultural industry is usually cited as an illustration to which the principle of diminishing returns may be said to attach, and, if we leave out of view the element of accruing rent, the conclusion which we have suggested may be applied in its most extreme form to the business of farming. There is no call for government farming.

The peculiarity of those industries belonging to the third class, which we now come to consider, lies in the fact that they conform to the law of increasing, rather than to the law of constant or decreasing returns. The increment of product for expanding enterprise is greater than the increment of capital and labor required to secure it. Adopting the algebraic formula as before, if $2x$ capital give $2y$ product, an economic application of $3x$ capital will give more than $3y$ product. Mr. Mill recognizes the relation of product to labor here pointed out, and, erroneously as it appears to me, states it as a principle of general application. "As a general rule," he says, "the expenses of a business do not increase proportionally to the quantity of business." But, without considering this point, the important thought in this connection is, that where the law of increasing returns works with any degree of intensity the principle of free competition is powerless to exercise a healthy regulating influence. This is true, because it is easier for an established business to extend its facilities for satisfactorily meeting a new demand, than for a new industry to spring into competitive existence. If this analysis of industries be accepted as correct, there can be no question as to the line which marks the duties of the state. The control of the state over industries should be co-extensive with the application of the law of increasing returns to industries.

The railroad business may be sighted as a good illustration of this third class of industries. When a railroad is first built through a thinly settled country, it is the problem of the engineer to put the enterprise into running order at the least possible outlay of money. The survey avoids cuts and bridges at the expense of distance, the rails are light and the rolling stock not the best. The cost of plant is necessarily great in proportion to the business that may be immediately expected. But the development of the country

soon taxes the facilities of the road to its utmost, and a new road must be built, or the capacity of the old one extended through the application of fresh capital. It is not difficult to decide which of these methods will be adopted. The capacity of the old road may be extended at a comparatively less cost than the building of a new : and, so decided are the advantages of an established business over one struggling into existence, that it is fair to regard the old road as practically free, for a long time at least, from the competitive interference of new capital.

It may be regarded as a little rash to bring up by way of illustration, an industry about which there is so much discussion. Many writers, who look at the question rather as railroad lawyers than as students of social organization, maintain that the business of inland transportation is subject to the regulative influence of competitive action ; and this they endeavor to prove by calling attention to the fall in freights. Out of deference to my hearers, however, I will pass this discussion with the suggestion that it is an error to judge of the efficacy of competition in the railroad industry, solely on the basis of freight schedules. There are other tests equally as clear and more simple in their application. If any business is subject to competition, a new enterprise of the same sort and bidding for the same trade ought to spring up in the ordinary course of industrial expansion, and not be delayed until induced by the hope of enormous speculative profits. Or, to state the point specifically, if competition rules in the railroad business, the chief purpose of building new lines in the territory of an established line, should not be to make money by selling out. There could be no money in such a speculation unless the net receipts of the old road were far in excess of the normal return upon the necessary cost of its plant. For, as has been pointed out, were it the increased traffic which suggested the necessity of increased

facilities, these could be more economically supplied by extending the capacity of the established line. It is because the established companies are gorged with profit that they may be tapped with success; and it thus appears that the very fact so frequently cited by corporation lawyers as proof of the efficacy of competition is evidence of the inability of this principle to secure fair dealings to the public.

Or again, our comparison of the rule of public and of private financing leads to the conclusion that, when the guarantees upon which each respectively rests are unimpeded, parallel results may be expected in all forms of industry. From this it follows that personal income from personal services should be about the same for all businesses of the same grade. But compare the salary lists of public officials with railroad officials; or the salaries of railroad officers who are "let in on the ground floor," with those of employees whose duties are as important for the proper management of the business, but of a more perfunctory character. Or consider the salaries that men pay themselves for rendering that service so important to society of manipulating stock; or again, the large amounts gotten out of the earnings of the roads in the form of lawyers' fees, arbitrators' fees and the like, before any dividends are declared. Profit is what a man pays himself when he employs himself, and where competition works its normal results no man can pay himself very much more than he will be obliged to pay other men for services of the same grade. I will not call this excess of self-payment evidence of corruption, as would be done if the officer were a public servant, for the law has nothing to urge against it; I only say that competition does not regulate those businesses where great discrepancies of personal income are permanently maintained.

There are many other lines of business which conform to the principle of increasing returns, and for that reason come easily under the rule of centralized control. Such busi-

nesses are by nature monopolies. We should not deceive ourselves in believing that competition can secure for the public fair treatment in such cases, or that laws compelling competition can ever be enforced. If it be for the interest of men to combine no law can make them compete. For all such industries the only question at issue is, whether society shall support an irresponsible, illegal monopoly, or a monopoly established by law and managed in the interest of the public. In this latter way we may secure the benefits of monopoly organization, and in no other. The great argument against this is that government is inefficient and corrupt, and that brings us to a consideration of the third of the evils worked by the theory of non-interference.

SOCIAL HARMONY MAY BE RESTORED BY EXTENDING
THE DUTIES OF THE STATE.

As the third class of evils attending the attempted realization of the doctrine of *laissez-faire* may be mentioned the injury worked to establish government. The policy of restricting public powers within the narrowest possible limits tends to weaken government and render it inefficient; this leads to public corruption which, in its turn, invites to yet greater corruption in private practices. Excluding for the present Federal administration, no one will deny that the government of our States is inefficient, while that of our municipalities is a dead failure. This fact is usually urged by the advocates of *laissez-faire* as the strongest argument in favor of their doctrine. See, they say, what a weak and halting thing this government is; it cannot do well what now is in its hands, how absurd to extend the range of its activity! There seems to be reason in this statement; but if the views here entertained be correct, it is open to the criticism of accepting a resultant fact as the premise of its argument. I prefer to turn the matter

round and say that the limpness of local government in this country is one of the lamentable results of the *ne-touchez-pas* policy administered in the presence of intense commercial activity. The advocates of non-interference have treated government as the old physicians treated their patients. Was a man hot he was bled; was he cold he was bled; was he faint he was bled; was he flushed he was bled; until fortunately for him he passed beyond the reach of leech and lance. This has been, figuratively speaking, the form of treatment adopted by the people of the United States for their local governments, and it has worked its natural result of feebleness and disintegration.

It is obviously impossible to enter upon any account of the legal and constitutional restrictions that have sprung up since 1830, but one point is of so much significance that I cannot forbear its mention. There are three facts which present such uniformity in their movement that one is inclined to search for some causal relation between them. These are the growth of lawyers' fees, the rise of a corporate power, and the decay of local government. So far as the lawyers are concerned, we cannot doubt their ability to explain in a satisfactory manner the exceptionally fortunate position in which they find themselves in a disintegrated society; we may, therefore, leave this duty to them. But the contemporaneous growth of corporate power and municipal corruption bears for us a deep significance. The rise of corporations into such importance that they menaced the stability of society, dates from the time when the States were deprived of all direct control over inland transportation. It will be remembered that between the years of 1830 and 1845 it was the accepted policy in this country for the States to undertake the development of inland commerce. The Board of Internal Improvement was a familiar figure in local politics, and the business entrusted to it was as important as any that claimed public attention.

public and private activity are not properly correlated in the existing organization of society; and this is in large measure due to the teachings of the school of *laissez-faire*.

The basis of this distinction has been already suggested. We have said that society, being the fundamental fact disclosed by an analysis of human relations, confines within itself all individual growth and action. The activity which it displays is either public or private; that is to say, the activity of the state embracing all governmental functions, or that of individuals or corporations which is undertaken for private ends. But the important point that should be noticed in this connection is, that these departments of social activity are constantly acting and reacting each upon the other. The line which separates them is clearly defined so far as the principles are concerned to which each must conform, for the one is subject to the rule of public and the other to the rule of private financiering; but the growth of society demands continuous modification in the assignment of specific functions: Recognizing then the mutual relations that exist between public and private duties, it is easy to understand why failure to achieve the best results in one department of activity must injuriously affect the other; and the pertinent question for one who would direct by his thought the development of society is, under what conditions may the best results be expected from both departments of activity?

This question has been already answered. The best results may be expected when the duties assigned to public officials and the functions performed by private individuals are so corrolated that the inducements offered are of about the same strength in both domains of activity. It is of course necessary, in applying this rule to take into consideration other than merely pecuniary motives by which men are led to act. Considerations of social distinction, the desire to exercise such powers as one may possess, the

pleasure of filling well a responsible position, indeed all the varied demands of human nature must be admitted into the account. If the importance of the State is so emphasized, and the allurements in the form of social position or emoluments of office are so strong, that the best talent of the people is drawn into the public service, a powerful and efficient government will probably be established, but a very bad society. It is believed that Prussia is now suffering from the dearth of talent and vigor in common business enterprises, and that she must continue to suffer in this manner until the state relaxes its hold upon the brilliant and talented of her youth. A German sewing machine is a very bungling affair made after the abandoned models of American patterns; but German cities are well governed.

In our own country, on the other hand, one observes that society has developed in the opposite direction. The great prizes here offered are in the line of individual initiative. Our civil service is so poor that an official has no social position, while a business man who accumulates money is regarded with common deference. The salary paid by the state is nothing when compared with what men of ordinary talent may secure, either as profit if engaged in business on their own account, or as salary if working for a private employer. It is, therefore, no occasion for surprise to learn that in this country we have very perfect sewing machines, but poorly administered cities.

One cannot fully appreciate this view of the case without calling to mind the possibilities of acquiring wealth in a rapidly developing industrial society. The atmosphere of such a society is intensely commercial, and not only do men of ability and energy refuse to consider a public position as desirable for themselves, but they regard with supercilious condescension one who is willing to assume public office. And it may be added in this connection, as bearing on the question of municipal corruption, that the moral judgments

of a public officer are very much like those of his neighbors who elect him, and the sentiments which control in the transaction of their daily business will probably give color to his administration. But the ordinary business life of the nineteenth century is such as to render men familiar with methods of speculation, and to conform their ethical principles to the law of supply and demand. The spirit of speculation partakes in character the spirit of gambling. It judges of all businesses undertaken on the basis of their pecuniary success, and has little care for the equivalent given for what is gained. A fine sense of what is just cannot exist where it prevails, nor can a delicate appreciation of what is honest be long retained by business men.

Suppose now, that a man of good intentions come into office in a community breathing the atmosphere of commercial speculation, what does he see upon looking into society whose welfare is placed in his hands? He sees that it is no uncommon thing, where contracts are uncontrolled, and where the rule of individual ownership is indiscriminately applied to all of the agencies of production, that fortunes are established in the hands of men and families having no peculiar right to them. Men who have been lucky in owning real estate that other men wanted; men whose mines happen to yield purer copper than other mines worked; men with timber lands, salt wells, and other gratuitous products of nature that come into demand as population increases; all these men increase their pecuniary importance out of proportion to their effectiveness as producers of wealth. He sees also, that many businesses which, from their very nature must be carried on as monopolies, are given over to private control, that the principle of private financiering is applied to them with all its vigor, and that in this manner large fortunes are accumulated and large power over men acquired, exceeding by far the importance of any individual to society. He sees also that in many busi-

nesses, naturally subject to the regulating influence of competition, artificial combinations are established by means of which monopoly prices are secured from consumers. But such privileges as these cannot pass unchallenged, and it follows that the important lawyers of every town are retained at large salaries to defend by their tempered talents the privileges that monopolists have secured; while other lawyers are hired to depart from their legitimate profession to secure for business men some special legislation. Yet all this lies within the law. It cannot be branded as corrupt, although the least sum taken by a public official beyond his stated salary is properly called robbery.

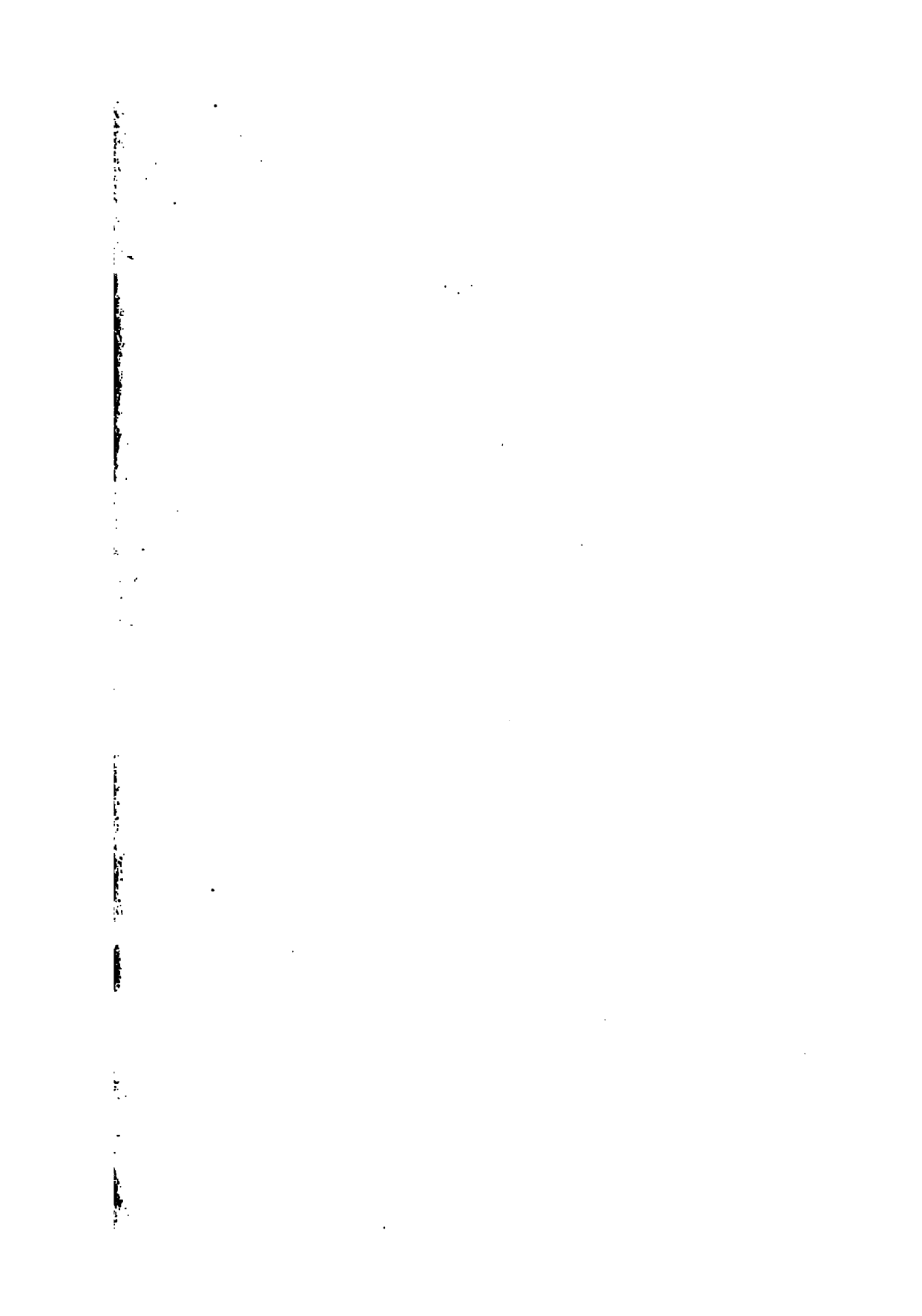
As contrasted with this state of affairs, what does our successful candidate see in the office to which he has been elected? He will not long remain an incumbent before discovering that the position which he sought as a dignity brings with it no honor. What he thought to be a place of responsibility and power, proves to be the center of no great influence, demanding in reality little beyond the perfunctory duties of a ministerial officer. He finds that there is small demand for the exercise of judgment and narrow play for the development of manly faculties. He also learns, through the sinister suggestions of those whose personal interests he does not forward, that his tenure of office is insecure; and, last of all, he finds that his salary does not suffice to keep his family respectably in the social circles in which they wish to move, and that the gratitude of Republics does not extend to provision for their servants against sickness and old age. Repeating again the assumption that our candidate is honest, at least within the meaning of the law, and that he is conscious of ordinary business capacity, we are warranted in concluding that the career of an official will not harmonize with his tastes. He will, upon the first opportunity, retire to private life, which presents larger scope for efficient activity, and where the prizes to be gained are much greater.

Such are the conditions of a public career in most of the municipalities of the United States, and the observed results are altogether what might have been expected in a society controlled by the dogma of *laissez-faire*. The incumbants of local office are usually men of indifferent ability. If not actually depraved, they are at least colorless in character. Among "city fathers" of this sort there appears, from time to time, the shrewd yet unscrupulous man who, for personal aggrandizement, assumes complete control over public affairs. This is the explanation of "rings" and "jobs." Public corruption, therefore, is no accident. It is the necessary result of the idea that the best thing to do with a public official is to lay him on the shelf out of harm's way.

The truth is that the theory of non-interference has destroyed all harmony in the social organism, and until harmony is restored by securing some equality in the pressure of motives that lead men to choose a public or a private career, we cannot hope for efficiency and honesty in public affairs. The first step towards the solution of the question of municipal corruption is to abandon the doctrine of non-interference, and to recognize that municipal reform is part of the great social question of the day.

I have not, in the course of this address, spoken of the principles that should control in the framing of laws whose purpose it is to attain the ends here presented as desirable. This without doubt is the most important part of the subject. And my only apology for having cut off more cloth than could be sewed into the garment is, that there is so much cloth at hand, and the garment required to cover an hour's address, is such a little affair. I am also aware that many of the topics suggested have not been conclusively treated. The pressure of time might also be urged as a partial excuse for this, but I prefer to shield myself behind the saying of Joubert's, that "it is better to stir a question without settling it, than to settle a question without stirring it."









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